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Latin America REGIONAL BRIEF

United States Department of State
Bureau of Public Affairs

May 1989

U.S.-Mexico Relations

The importance of U.S.-Mexico ties was underscored on November 22, 1988, when President-elect George Bush met with Mexican President-elect Carlos Salinas in his first postelection meeting with a foreign leader. Mexico is important to the United States not only as a neighbor sharing a 1,952-mile border, and one of our largest, secure foreign oil suppliers, but as our third largest trading partner. It is a country with which we have longstanding cultural ties and a shared history. The United States is important to Mexico as its major market and trading partner, a close neighbor and world power, an investor in the Mexican economy, and the home of many emigres who maintain family ties in Mexico. For these reasons, Mexico and the United States desire closer relations and are working together more closely than ever on economic, border, tourism, and law enforcement issues.

Recent U.S.-Mexican agreements include: a bilateral trade and investment framework understanding; a mutual legal assistance treaty; and agreements on textiles, steel, civil aviation, telecommunications, and the border environment. Ongoing dialogue has averted potential friction over U.S. immigration reform. And Mexican accession to the General Agreement on Tariffs and Trade (GATT) has marked an important step in relating Mexico to the world economy and enhancing the possibility of further strengthening U.S.-Mexico trade relations.

Then President-elect Bush met with Mexican President-elect Salinas on November 22, 1988. (White House photo)

Trade

The trade relationship with our southern neighbor is extremely important. With a 1988 total of $44 billion in two-way trade, Mexico was our third largest trading partner—after Canada and Japan, with whom U.S. total trade amounted to $150 billion and $131 billion, respectively. Mexico was the third largest U.S. export market and fifth largest supplier of 1988 U.S. imports. At the same time, the United States is even more important to Mexico's trading picture—some two-thirds of its total trade was with the United States.

Since 1986, Mexico has liberalized its tariff levels and cut its use of import licensing and official reference prices. As part of this reform package, Mexico is diversifying its exports to reduce its vulnerability to fluctuations in the price of oil. Though affected somewhat by low petroleum prices, exports of manufactured goods produced more revenue in 1986, 1987, and 1988 than did oil exports, testimony to the impact of Mexican economic reforms and their emphasis on developing exports.

Under an umbrella Framework Understanding on Trade and Investment in 1987, the United States and Mexico have concluded separate accords on trade in textiles, steel, beer and wine, and—outside the framework—on civil aviation. Following the signing of the

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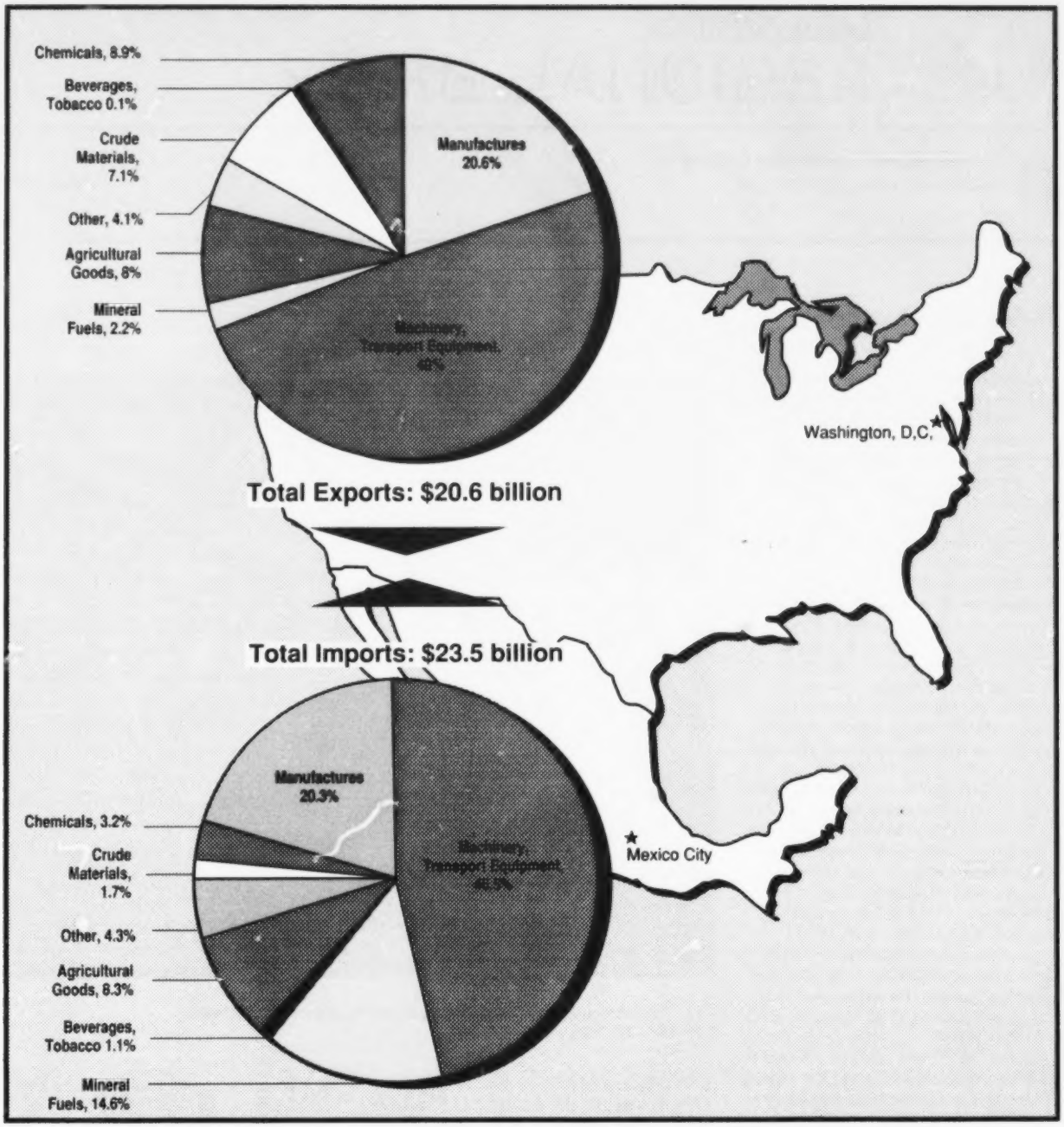
U.S. Trade With Mexico, 1988



Free Trade Agreement with Canada in 1987, some discussion has centered on the possibilities for developing a similar accord with Mexico. The gap in development levels between the United States and Mexico makes that unlikely at this time, but there is interest on both sides in expanding trade relations.

Investment

The United States accounts for more than 60% of some $20 billion in foreign direct investment in Mexico. More foreign and domestic investment is needed to promote Mexican economic growth. Though the investment climate is improving, domestic ownership restrictions, local content and performance requirements, poor intellectual property protection, and unclear rules still discourage foreign investment. However, an extensive liberalization of these rules reportedly is underway.

The 1987 trade and investment framework established a consultative mechanism for resolution of these issues. It can serve as a vehicle for work-

ing toward future trade and investment agreements and marks a significant advance in the bilateral negotiating climate.

The growth of the Mexican in-bond assembly plant industry (*maquiladora*)—where imported components are transformed and reexported as finished goods—and its use by major U.S. manufacturers have led to a substantial degree of U.S.-Mexico industrial integration. This has spurred economic growth on both sides of the border.

Mexico, with some 82 million inhabitants, is the 11th most populous country in the world. Its capital is the world's largest city. But while Mexico has one foot in the developed world, much of Mexico is still a Third World country. Also, Mexico is in the throes of massive social change: from a rural nation of 26 million people 40 years ago, Mexico has become a largely urban industrializing nation, whose population will exceed 100 million by the year 2000. Each year, 1 million young people enter the job market—most of whom seek work in metropolitan centers or the United States.

Mexico is going through perhaps its worst economic recession of this century and massive systemic changes largely driven by economic and demographic forces. Per capita income is down 15% since 1982 and there is widespread unemployment, but this has given rise to modernization efforts that have already begun to bring major and beneficial changes to the economy and also may have accelerated the evolution of Mexico's political system.

Debt

About 25% of Mexico's $107-billion debt and $13-billion annual debt service is owed to U.S. banks. A large portion of this debt was acquired in the late 1970s when the discovery of vast additional oil reserves in Mexico removed constraints on foreign borrowing.

However, by 1982, Mexico was beset by falling oil prices and rising real interest rates, coupled with poorly managed fiscal and monetary policy. This resulted in a substantial decline in real wages and per capita output over the subsequent 6 years. Mexico has undertaken and persisted in difficult economic reform measures which have curbed inflation sharply and trimmed, somewhat, the government's inflation-adjusted fiscal deficit. These essential measures, on the heels of already declining real wages, have been seen as imposing a heavy social cost. Mexico has remained current in paying its international debt obligations, despite the fact that interest alone, at $9 billion in 1988, represented over 5% of total output.

An economically healthy Mexico is in the U.S. interest, both for the sake of social stability and to maintain its capacity to function as a major market for U.S. goods and services.

Mexico may need help in order to ensure that it resume growth. It is trying to negotiate a reduction in its repayments to international lenders over the next 5 years in order to devote those funds to resuming growth. In early March 1989, U.S. Secretary of the Treasury Nicholas Brady announced a proposal for debt and debt service reduction which would apply to Third World debtors. Mexico presented its own plan for debt management to the World Bank and International Monetary Fund meetings in April.

Immigration

Immigration, legal and illegal, has a major impact on U.S.-Mexican relations. The United States issues more immigrant visas to Mexican nationals than to those of any other nation—55,000 in fiscal year 1987. Visitor visas totaled nearly one-half million in the same period. Yet immigration issues have been contentious for some time. For the United States, the problem is one of controlling entry across borders and assuring that immigrants do not displace American workers. Mexico wants to protect the human and labor rights of its workers in the United States, whether legal or otherwise. Migration to the United States is often seen as a social "safety valve," as an alternative to unemployment or underemployment at home. The U.S. and Mexican Governments share a deep concern over violent acts against Mexicans committed by smugglers of illegal immigrants or other criminals.

Substantial portions of the Immigration Reform and Control Act of 1986 concern the twin issues of illegal immigration and the need for agricultural laborers in the United States. The act—which seeks to reduce illegal immigration by providing enforcement of sanctions against those employing illegal immigrants—has moved into high gear. The law also has amnesty provisions which will allow many undocumented aliens who have lived in the United States to obtain legal resident alien status and eventually citizenship. Legalization provisions have allowed 1,235,600 Mexicans who were residing illegally in the United States to remain legally.

In 1987, the Mexican and U.S. Governments established two joint working groups to discuss ways to reduce violence against undocumented aliens as they enter the United States, handle mistreatment of Mexicans, and resolve other problems.

Narcotics

Mexico has expanded the scope of opium and marijuana eradication programs, while taking steps to improve operational efficiency. However, Mexico is still a major drug producer and a major transshipment point for South American cocaine. It is our largest single foreign source of heroin and the second largest source for marijuana.

The demand for illicit narcotics in the United States and the foreign production and trafficking of drugs are two sides of the same coin. The United States seeks to resolve the problem of illegal narcotics traffic from Mexico to the United States by working together with Mexican authorities to curb supply. At the same time, the United States works with officials at state and local levels to reduce the demand for drugs in the United States.

The narcotics problem is the most controversial in our bilateral relationship. U.S. law requires that countries be certified as cooperating with the United States before they can benefit from certain assistance programs and tariff benefits. In the case of Mexico, the loss of tariff benefits under the generalized system of preferences—and a sharp cut in concessional lending—would be the most significant sanctions.

Mexican officials point out that 60% of their attorney general's budget and 25% of their army personnel are deployed in the war against drugs. The attorney general's budget for 1989 exceeds $26 million, up from $19.5 million in 1987. For our part, President Bush has announced a $5.5 billion nationwide program to curb drug consumption in the United States through education and increased law enforcement. Mexico is

prosecuting top drug traffickers, including those charged with the highly publicized kidnaping and murder of an American drug enforcement agent.

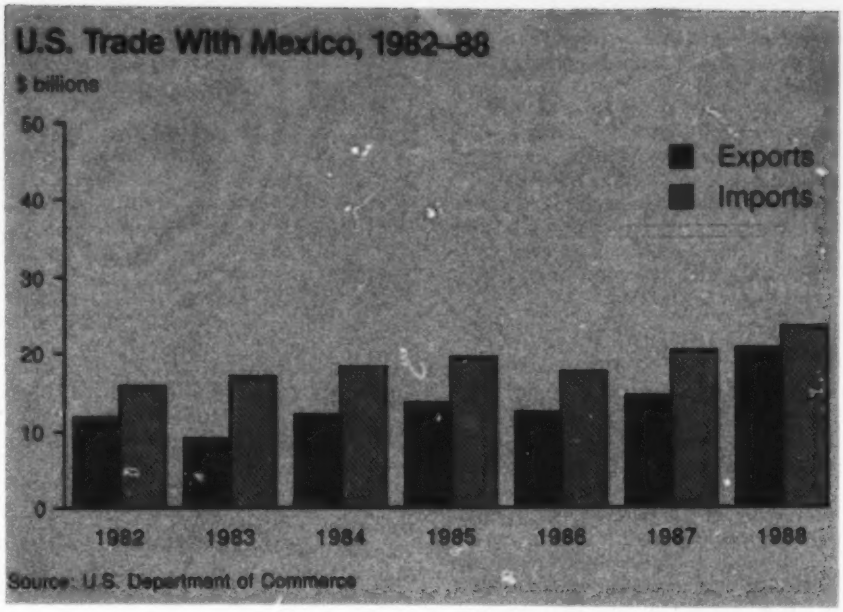
Since 1976, the United States has supported a Mexican aerial eradication program, primarily through funding of maintenance support. Mexican authorities have seized record amounts of cocaine this year, and U.S. and Mexican officials cooperate on drug interdiction along the border.

Bilateral Relations

The sheer breadth of U.S.-Mexico relations, the 1,952-mile land border, and involvement by federal, state, and local and private-sector entities give us a unique position with our neighbor to the south. While the range of our relationship will always deal with the management of problems that derive from our many ties, the fabric of the relationship has been marked by increasing cooperation and understanding and the creation of institutions to manage the resolution of differences.

U.S. foreign policy objectives toward Mexico include:

- A stronger U.S.-Mexican trade partnership, based upon the further relaxation of trade barriers on both sides;
- Increased access for foreign investment in Mexico;
- Responsible and prudent action toward the payment of Mexico's international debt, some $30 billion of which is owed to U.S. financial institutions;
- The control of illegal emigration from Mexico to the United States, while facilitating the flow of documented workers and preventing the abuse of Mexican workers who do cross the border; and
- A reduction in the flow of illegal narcotics from Mexico to the United States by engaging in bilateral efforts to curb both supply and demand.■



Published by the United States Department of State • Bureau of Public Affairs
Office of Public Communication • Editorial Division • Washington, D.C. • May 1989

PA/OAP, Rm. 5815A
United States Department of State
Washington, D.C. 20520

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